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Editorial

Give businesses relief from 22% tax surcharge

For months, Michigan businesses have been chafing under the burden of a surcharge on the state's business tax -- precisely what job providers don't need as they confront the wrenching effects of a fundamental restructuring of the auto industry. Now, the state Senate has promised some relief, and the House of Representatives should follow suit.

The Michigan Senate last week voted to accelerate the phase-out of the surcharge on the business tax, which currently could stretch until 2016. The Senate legislation would reduce the surcharge to 14.66 percent from 21.99 percent next year and to 7.33 percent in 2010. It would be eliminated for the 2011 tax year.

The surcharge was added to the Michigan Business Tax last year after an uproar over the effects of a sales tax on certain services caused it to be repealed. The Michigan Business Tax was also adopted last year to replace the state's much-hated Single Business Tax.

The primary problem with the Single Business Tax was that it was effectively a tax on jobs -- every new job a firm added caused its Single Business Tax liability to increase.

The base of the Michigan Business Tax is a combination of gross receipts and business income. The state also eliminated a state property tax on business equipment.

The surcharge covers the projected revenue loss from the business equipment tax and the state's generous movie-making tax credit and some other tax adjustments.

But if you raise a new tax to replace the tax revenues you are cutting, you're not really providing tax relief.

As Michigan Senate Finance Committee Chairwoman Nancy Cassis, R-Novi, noted in a statement, the major complaint of business owners in hearings by a subcommitee on the impact of the new business tax was the $660 million surcharge.

The phase-out could cost the state budget $333 million next year. The shortfall could easily be made up if the Legislature adopted even a few of the changes recommended last month by Detroit Renaissance in its study of state spending.

Raising the health care contribution of state employees to the national average, it noted, could have saved between $88 million and $219 million in the 2007 state budget.

Changing sentencing guidelines and sentencing practices so Michigan's prison stays matched those of other Great Lakes states could save an estimated $403 million. Sentencing nonviolent offenders to prison alternatives could yield additional millions of dollars.

Similar savings are available if relatively minor changes are made to the state's welfare and Medicaid programs, the report suggests.

Michigan businesses should pay a fair share of taxes, but loading a 22 percent surcharge on them as they struggle with a six-year recession, high unemployment and now uncertainty in the national economy is not a good way to encourage new jobs and investment in this state.

The Senate legislation, coupled with adoption of the suggestions for budget savings in the Detroit Renaissance report, is a reasonable approach to providing real tax relief for struggling Michigan firms.

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